



Prepared for Senator Patrick J. Leahy

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# The Impact of Increased Gasoline Prices in Vermont

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## BACKGROUND

In recent weeks, gasoline prices have increased dramatically, reaching record levels in May 2004.<sup>1</sup> Although the Bush Administration had previously indicated that prices would drop over the summer,<sup>2</sup> experts are now anticipating that these high prices will continue for months.<sup>3</sup>

These high gasoline prices have significant impacts on family budgets — and on the economy as a whole. Increased expenditures for gasoline reduce families' discretionary income and can result in inflation in the price of consumer goods. On May 17, 2004, Federal Reserve Chairman Alan Greenspan indicated that the “dramatic” increase in oil and gasoline prices is “an economic event that can significantly affect the long-term path of the US economy.”<sup>4</sup>

At the request of Senator Patrick J. Leahy, this analysis examines the impact of the increase in gasoline prices in Vermont. It finds that the increased costs could force motorists in Vermont to pay nearly \$47 million more for gasoline in the summer driving season than they did last summer. For the average family in Vermont, the increase in gasoline prices could increase fuel costs by approximately \$180 between Memorial Day and Labor Day.

## METHODOLOGY

This analysis estimates the increased amount that consumers will spend on gasoline between Memorial Day and Labor Day due to rising gasoline costs. It is based upon (1) data from the American Automobile Association that tracks changes in fuel prices and (2) data from the Department of Transportation's Federal Highway Administration that tracks fuel usage and

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<sup>1</sup> *Price of Gas Hits 23-Year High*, Washington Post (May 15, 2004).

<sup>2</sup> Testimony of Energy Secretary Spencer Abraham before the House Committee on Energy and Commerce (Apr. 1, 2004).

<sup>3</sup> *Id.*

<sup>4</sup> *Greenspan Warns Dramatic Rise in Oil Price Will Dent U.S. Demand*, Financial Times (May 18, 2004).

driving patterns at the state level. This data is used to estimate total gasoline usage for the state. Total increased spending on gasoline is determined by multiplying the increase in gasoline prices by the estimated amount of gasoline that will be used.

## **FINDINGS**

### **A. Gasoline Prices in Vermont**

In recent months, gasoline prices have increased rapidly in Vermont. In May 2004, the average price of a gallon of regular gas in Vermont was \$2.04.<sup>5</sup> Compared to prices one year ago, this represents an increase of 52 cents per gallon.<sup>6</sup> The U.S. Energy Information Administration has projected that gas prices (and the difference in gas prices from 2003 to 2004) will remain at high levels through the summer.<sup>7</sup>

### **B. The Impact of Increased Gasoline Prices in Vermont**

In 2004, drivers in Vermont will purchase approximately 360 million gallons of gasoline, an estimated 30 million gallons per month.<sup>8</sup> Assuming that gasoline prices remain 52 cents per gallon higher this summer than in 2003, increased gasoline prices would cost Vermont drivers an additional \$16 million monthly. Over the three-month summer driving season from Memorial Day through Labor Day, the total increased cost for drivers in Vermont would be \$47 million.

### **C. Individual Costs of Increased Gasoline Prices in Vermont**

There are approximately 530,000 registered drivers in Vermont.<sup>9</sup> On a per-driver basis, the increased gasoline prices will cost the average driver in Vermont approximately \$90 over the summer months. An average two-car family in Vermont will spend an additional \$180 on gasoline during the summer driving season.

## **CONCLUSION**

This analysis finds that increasing gasoline costs will have a significant impact on drivers in Vermont. In the aggregate, increased gasoline prices could cost Vermont drivers almost \$47

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<sup>5</sup> AAA, *Daily Fuel Gauge Report* (May 2004).

<sup>6</sup> *Id.*

<sup>7</sup> Energy Information Administration, *Short Term Energy Outlook* (May 2004) (online at <http://www.eia.doe.gov/emeu/steo/pub/contents.html>).

<sup>8</sup> The latest statewide data available from the Federal Highway Administration is for 2002. FHWA, *Monthly Motor Fuel Use Reported by States* (Dec. 2002). This data shows that drivers in Vermont purchased 346 million gallons of gasoline in 2002. According to the Energy Information Administration, gasoline use has increased by approximately 2% annually, or 4% between 2002 and 2004. A 4% increase in gasoline use in Vermont would result in Vermont drivers using 360 million gallons of gasoline. Energy Information Administration, *Short Term Energy Outlook* (May 2004).

<sup>9</sup> *Id.*

million from Memorial Day to Labor Day, with the average two-car family in the state paying \$190 or more extra for gasoline during this period.